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SIPDIS

SENSITIVE

DEPT FOR AF/E, AF/EPS, EB/IFD/OMA  
USAID FOR AFR/DP WADE WARREN, AFR/EA JEFF BURNS AND  
JULIA ESCALONA  
TREASURY FOR ANN ALIKONIS  
LONDON AND PARIS FOR AFRICA WATCHERS

E.O. 12958: N/A

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SUBJECT: IMF BRIEFS KENYA'S "LIKE MINDED" POLITICAL  
OFFICERS

Ref: Nairobi 2651 and previous

Sensitive-but-unclassified. Not for release outside USG  
channels.

1. (SBU) Summary: Kenya IMF Resident Representative Jorgen Reitmeier briefed a small gathering of "Like-Minded Donors/Political" (LiMiD/P) on July 12. In addition to outlining Kenya's progress on its PRGF, as reported in reftel, Reitmeier offered a guardedly optimistic assessment of Kenya's current economic performance, but noted that infrastructure problems must be addressed. Donors pressed him on corruption and governance concerns and Reitmeier explained that the GOK was making progress on the governance criteria built into this second review. End summary.

2. (SBU) USAID/Democracy and Governance Officer and Acting Econ/C attended a July 12 briefing by Kenya IMF Resident Representative Jorgen Reitmeier to a small gathering of "Like-Minded Donors/Political" (LiMiD/P) at the residence of Swiss Deputy COM Arthur Mattli. Also attending were representatives from the U.K., Canada, Germany, France, Sweden, Australia, and Japan. Sticking mostly to the information he shared previously with donors (reftel), Reitmeier provided a summary of current thinking on Kenya's progress on criteria for the second review of Kenya's three year, \$240 million Poverty Reduction and Growth Facility (PRGF). In response to participants' questions, Reitmeier touched on a few other themes as well.

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KENYA'S ECONOMY IS SATISFACTORY  
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3. (SBU) Reitmeier noted that Kenya's revised FY2004 GDP of 4.3 percent is still provisional, but, of greater importance, the IMF is comfortable with Kenya's revised GDP growth figures and the GOK's updated methodology for its growth estimates. Estimates of 4.8 percent in FY05 and 4.9 percent in FY06 seem reasonable, but beyond that even these growth rates will not be sustainable without significant new investment in Kenya's deteriorating infrastructure. Reitmeier opined that Kenya's available budget allocations will not be sufficient for needed infrastructure improvements and the GOK should begin a concerted strategy to pursue additional donor support. In particular, he noted the usefulness of possible future budget support from the European Union and the World Bank.

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GOVERNANCE - IMF IS PAYING ATTENTION  
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4. (SBU) LiMiD/P co-chairs Canada and Switzerland both pressed Reitmeier on the on-going concerns about governance and corruption. Reitmeier acknowledged that it is a problem, and that the IMF would continue to assess the situation critically. He also pointed out some positive momentum, namely that the Public Officers' Ethics Act was likely to be amended this year, which would permit greater scrutiny of senior officials' asset declarations by the Kenya Anti-Corruption Commission (KACC). However, participants noted that the amended draft might not include the desired provision for public disclosure of the declarations, which is not a requirement under existing law. The current draft does outline specific codes of conduct for the President, Ministers, and MPs. By Reitmeier's estimation it also includes a good catalog of prohibited conflict of interest behavior.

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TOO SOON FOR AN EXIT STRATEGY  
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5. (SBU) When asked if the IMF was considering a possible exit strategy from Kenya, Reitmeier responded that the current program has not even completed its second review. After this program's completion, however, the IMF will consult closely with the GOK, IMF members, and donors on

the need for a second program. That could possibly take the form of a "signaling program," developed through Article 4 consultations with donors, that would permit continued assessment of Kenyan progress in meeting program targets but without new disbursements. Reitmeier also noted the Tanzanian model where a second PRGF was developed with only a "symbolic" contribution (\$US7 million over three years) that allowed further IMF engagement with policy makers. Reitmeier added that it is too soon to tell if this could be a useful model for Kenya.

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Comment  
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16. (SBU) Reitmeier was effective in summarizing for this small gathering of mostly political officers where Kenya stands on its PRGF. He clearly outlined that the GOK is making progress on meeting program conditionality, but that his staff is closely watching both economic and political developments. At the same time, there could be no doubt in his mind that, at least for the majority of the LiMiD members, reiterating concerns about corruption and governance continue to be a priority message that the IMF needs to share with senior Kenyan officials.  
BELLAMY